

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name Ludington Mass Transportation Authority	County Mason
Audit Date 9/30/04	Opinion Date 11/12/04	Date Accountant Report Submitted to State: 12/28/04	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).	✓		
Single Audit Reports (ASLGU).	✓		

Certified Public Accountant (Firm Name) Baird, Cotter & Bishop, P.C.			
Street Address 134 W. Harris Street	City Cadillac	State MI	ZIP 49601
Accountant Signature		Date	

LUDINGTON MASS TRANSPORTATION AUTHORITY

LUDINGTON, MICHIGAN

SEPTEMBER 30, 2004

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Baird, Cotter and Bishop, P.C.

CERTIFIED PUBLIC ACCOUNTANTS

November 12, 2004

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the accompanying financial statements of the business-type activities of the Ludington Mass Transportation Authority, as of and for the year ended September 30, 2004 which collectively comprise the Authority's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Ludington Mass Transportation Authority, as of September 30, 2004, and the respective changes in financial position and cash flows, thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of October 1, 2003.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2004, on our consideration of the Ludington Mass Transportation Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Ludington Mass Transportation Authority, Ludington, Michigan basic financial statements. The accompanying information listed as supporting schedules and statistical tables in the Table of Contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Ludington Mass Transportation Authority. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*, and is also not a required part of the basic financial statements of the Ludington Mass Transportation Authority. Such information, except for that portion marked "unaudited", on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements, taken as a whole.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop PC

LUDINGTON MASS TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

This section of the Authority's Comprehensive Annual Financial Report presents management's overview and analysis of the Authority's financial performance for the fiscal year ended September 30, 2004. This section should be read in conjunction with the financial statements which follow this section.

Financial Highlights

- The assets of the Authority exceeded its liabilities at September 30, 2004, by \$3,921,790. Of this amount, \$908,478 represents net assets which are not invested in capital assets.
- The Authority's total net assets increased by \$1,654,553. This increase results mainly from capital grants received to build the new facility.
- The Authority remained free of long-term debt during the period.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements also contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Revenues, Expenses and Changes in Net Assets presents information showing how the Authority's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods.

Financial Analysis

For the year ended September 30, 2004, assets exceeded liabilities by \$3,921,790. Transit is a capital-intensive enterprise, and approximately 77% of the net assets are invested in capital assets. The following is a summary of the Authority's net assets.

LUDINGTON MASS TRANSPIRATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Summary Statement of Net Assets

	2004	2003
Assets:		
Current Assets	\$ 1,504,857	\$ 1,462,759
Capital Assets (Net)	3,013,313	1,039,145
Total Assets	<u>\$ 4,518,170</u>	<u>\$ 2,501,904</u>
Liabilities:		
Current Liabilities	\$ 596,380	\$ 234,667
Net Assets:		
Invested in Capital Assets	3,013,312	1,039,145
Unrestricted	908,478	1,228,092
Total Liabilities and Net Assets	<u>\$ 4,518,170</u>	<u>\$ 2,501,904</u>

The Authority's net assets increased by \$1,654,553 in 2004. The following is a summary Statement of Revenues, Expenses and Changes in Net Assets which show how the \$1,654,553 increase in net assets occurred. Also shown is the change for the year ended September 30, 2003.

Summary Statement of Revenues, Expenses and Changes in Net Assets

	2004	2003
Operating Revenue	\$ 214,263	\$ 199,578
Operating Expenses	1,422,778	1,291,978
Operating Loss	<u>\$ (1,208,515)</u>	<u>\$ (1,092,400)</u>
Taxes	\$ 177,322	\$ 172,010
Other Nonoperating Revenue	830,199	773,280
Total Nonoperating Revenue	<u>\$ 1,007,521</u>	<u>\$ 945,290</u>
Income (Loss) Before Capital Contributions	(200,994)	(147,110)
Capital Grants	1,855,547	106,300
Change in Net Assets	<u>\$ 1,654,553</u>	<u>\$ (40,810)</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Operating Revenues

The following table shows 2004 revenue compared to 2003:

<u>REVENUES</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Operating Revenue	\$ 214,263	17.54 %	\$ 199,578	17.43 %	\$ 14,685
Interest Income	22,018	1.80	34,807	3.04	(12,789)
Property Tax	177,322	14.51	172,010	15.03	5,312
Federal Assistance	174,068	14.25	214,809	18.76	(40,741)
State Assistance	622,412	50.94	506,078	44.21	116,334
Maintenance Service Revenues	11,701	0.96	11,422	1.00	279
Bus Advertising	0	0.00	162	0.01	(162)
Gain on Sale of Assets	0	0.00	6,002	0.52	(6,002)
Total Revenue	<u>\$ 1,221,784</u>	<u>100.00 %</u>	<u>\$ 1,144,868</u>	<u>100.00 %</u>	<u>\$ 76,916</u>
<u>CAPITAL CONTRIBUTIONS</u>					
Federal	\$ 1,484,438	80.00 %	\$ 69,258	65.00 %	\$ 1,415,180
State	371,109	20.00	37,042	35.00	334,067
	<u>\$ 1,855,547</u>	<u>100.00 %</u>	<u>\$ 106,300</u>	<u>100.00 %</u>	<u>\$ 1,749,247</u>

The federal reimbursement rate remained at 10.95% for eligible expenditures. The State reimbursement rate, however, dropped from 43.800078503% to 42.236619648%. The actual State operating assistance revenue did increase for fiscal year 2003-04, but not in proportion to the increase in eligible expenditures which contributed to the larger decrease in income before capital contributions as illustrated in the financial statements. The Authority built a new facility which was primarily funded by capital grants. Capital grants amounting to \$1,855,547 assisted the Authority in building the facility. The increased capital grants allowed the Authority to show a \$1,654,553 increase in net assets.

Operating Expenses

The Authority's expenses may be reviewed in two formats:

Operating Expense by Department - The department describes the major function areas of the Authority and includes:

Operations - Responsible for all on-street services, including operators, dispatchers and schedulers.

Maintenance - Responsible for providing vehicles (including fuel, parts and cleaning) and facilities (upkeep, utilities and rent).

LUDINGTON MASS TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Administration - All other functions including executive direction, planning, marketing, information systems, purchasing and finance.

Depreciation - Estimated pro-ration of the cost of capital assets over the useful life of the asset.

The following table shows the expenses for 2004 compared to 2003 by department:

<u>DEPARTMENT</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Operations	\$ 802,633	56.41 %	\$ 719,538	55.69 %	\$ 83,095
Maintenance	127,480	8.96	120,301	9.31	7,179
Administration	339,624	23.87	288,012	22.29	51,612
Depreciation	<u>153,041</u>	<u>10.76</u>	<u>164,127</u>	<u>12.71</u>	<u>(11,086)</u>
Total Expenses	<u>\$ 1,422,778</u>	<u>100.00 %</u>	<u>\$ 1,291,978</u>	<u>100.00 %</u>	<u>\$ 130,800</u>

- Operations increased because wages were up. Fuel costs have continued to rise which also contributed to the increase. Insurance costs have also risen sharply.
- Maintenance costs increased in large part due to upkeep needed to keep the Authority's buses in good repair.
- Administration costs increased because wages were up also in this category. Insurance costs allocated to administration costs also have risen.

Operating Expense by Object - The object is the classification of expenses by type of item. The following table shows expenses for 2004 compared to 2003 by object:

<u>OBJECT</u>	<u>2004 AMOUNT</u>	<u>2004 PERCENT OF TOTAL</u>	<u>2003 AMOUNT</u>	<u>2003 PERCENT OF TOTAL</u>	<u>INCREASE (DECREASE) FROM 2003</u>
Wages and Benefits	\$ 846,444	59.49 %	\$ 780,984	60.45 %	\$ 65,460
Services	126,381	8.88	97,200	7.52	29,181
Supplies and Materials	94,575	6.65	78,533	6.08	16,042
Utilities	22,747	1.60	21,028	1.63	1,719
Casualty and Liability	88,767	6.24	62,245	4.82	26,522
Miscellaneous	13,813	0.97	11,773	0.91	2,040
Leases and Rentals	70,152	4.93	76,088	5.89	(5,936)
Property Taxes	6,858	0.48	0	0.00	6,858
Depreciation	<u>153,041</u>	<u>10.76</u>	<u>164,127</u>	<u>12.70</u>	<u>(11,086)</u>
Total	<u>\$ 1,422,778</u>	<u>100.00 %</u>	<u>\$ 1,291,978</u>	<u>100.00 %</u>	<u>\$ 130,800</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

- Wages and benefits increased as a result of higher wage and benefit rates.
- Services expenses increased due mainly to increased spending on maintenance and repairs.
- Supplies expense increased as more was spent on fuel and on tire and operating supplies this year.
- Casualty and liability costs increased because of higher insurance premiums and other claims.

Capital Assets

The Authority's investment in capital assets as of September 30, 2004, amounted to \$3,013,313 net of accumulated depreciation. Capital assets consist of buses, land, buildings, other vehicles, bus and garage equipment and office equipment. Major capital asset acquisitions during 2004 included the following:

- Operating Facility (\$2,258,884).
- Radio equipment (\$61,251).
- Various shop equipment (\$17,437).
- Office furniture (\$35,396).

Additional information on the Authority's capital assets can be found in the notes to the financial statements.

Economic Factors and Future Outlook

With the current economic condition in the country and especially the State of Michigan, LMTA management anticipates the following:

- Federal Operating will stay consistent at 10.95 percent of eligible operating.
- Federal Capital Grants will require a 5 or 10 percent local match due to the State economy continuing in the depressed condition.
- State operating funds will continue to shrink in fiscal year 2006 due to the State's economy.
- The LMTA will be forced to cut service and fringe benefits due to State cuts.

LUDINGTON MASS TRANSPORTATION AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

- As with other employers, the LMTA continues to face increased employee benefit costs. In 2005, the LMTA will face a 19% increase in health insurance premiums. It is safe to anticipate another increase in 2006. To address the increases, the LMTA will drop some coverages by purchasing a cheaper health care plan. Dental and optical insurance may be dropped and a larger deductible plan may be implemented to cut costs. The LMTA does not anticipate cutting other benefits at this time.
- The LMTA has seen a large increase in property and casualty insurance coverage in the past two years. The LMTA participates in the Michigan Transit Pool to save on vehicles insurance costs. Unfortunately, pool members must share the cost of large claims from the other members. In 2002 and 2003, there has been above average large claims that required retrospective billings to all members. These claims happen and cannot be predicted. Due to this, premiums cannot be stabilized to account for catastrophic claims. Since 9/11, excess insurance rates have soared. This has increased the rates MTP members pay since we purchase excess insurance for over \$1,000,000. To combat the increased excess insurance costs, the MTP now self insures for \$2,000,000 and purchases \$2,000,000 in excess insurance. The future risk shared losses increases since the MTP now carries the first \$2,000,000 in coverage. The LMTA is not able to stabilize future premium costs due to the risk factor of all pool members.

Request for Information

This financial report is designed to provide a general overview of the Authority's finances for all those who have an interest in this agency's finances. Questions concerning any of the information presented in this report or requests for additional financial information should be addressed to the Ludington Mass Transportation Authority, 5545 W. Carr Street, Ludington, MI 49431.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

COMPARATIVE STATEMENT OF NET ASSETS
SEPTEMBER 30,

	<u>ASSETS</u>	<u>2004</u>	<u>2003</u>
<u>CURRENT ASSETS</u>			
Cash		\$ 939,651	\$ 1,318,540
Accounts Receivable		16,878	13,521
Due from Other Governments		496,125	84,440
Prepaid Expense		39,589	36,129
Accrued Interest Receivable		854	944
Inventory		11,760	9,185
Total Current Assets		<u>\$ 1,504,857</u>	<u>\$ 1,462,759</u>
<u>PROPERTY AND EQUIPMENT</u>			
Land and Building		\$ 2,359,855	\$ 100,971
Construction in Progress		0	245,759
Buses		1,332,325	1,296,247
Bus and Garage Equipment		74,966	69,651
Office Furniture and Equipment		127,398	133,297
		<u>\$ 3,894,544</u>	<u>\$ 1,845,925</u>
Less Accumulated Depreciation		881,231	806,780
Net Property and Equipment		<u>\$ 3,013,313</u>	<u>\$ 1,039,145</u>
TOTAL ASSETS		<u><u>\$ 4,518,170</u></u>	<u><u>\$ 2,501,904</u></u>

The accompanying notes are an integral part of these financial statements.

	2004	2003
<u>LIABILITIES AND NET ASSETS</u>		
<u>LIABILITIES</u>		
Accounts Payable	\$ 507,050	\$ 31,927
Accrued Liabilities		
Accrued Vacation	2,289	1,067
Payroll Withholdings	1,870	1,845
Salaries and Wages	9,495	4,234
Due to Other Governments	35,676	136,962
Deferred Revenue	40,000	58,632
Total Liabilities	\$ 596,380	\$ 234,667
<u>NET ASSETS</u>		
Invested in Capital Assets	\$ 3,013,312	\$ 1,039,145
Unrestricted	908,478	1,228,092
Total Net Assets	\$ 3,921,790	\$ 2,267,237
TOTAL LIABILITIES AND NET ASSETS	\$ 4,518,170	\$ 2,501,904

The accompanying notes are an integral part of these financial statements.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>OPERATING REVENUES</u>	\$ 214,263	\$ 199,578
<u>OPERATING EXPENSES</u>	<u>1,422,778</u>	<u>1,291,978</u>
Operating Income (Loss)	\$ (1,208,515)	\$ (1,092,400)
<u>NONOPERATING REVENUES</u>	<u>1,007,521</u>	<u>945,290</u>
Income (Loss) Before Capital Contributions	\$ <u>(200,994)</u>	\$ <u>(147,110)</u>
<u>CAPITAL CONTRIBUTIONS</u>		
Federal Financial Assistance	\$ 1,484,438	\$ 69,258
State of Michigan	<u>371,109</u>	<u>37,042</u>
Total Capital Contributions	\$ <u>1,855,547</u>	\$ <u>106,300</u>
Change in Net Assets	1,654,553	(40,810)
<u>TOTAL NET ASSETS</u> - Beginning of Year	<u>2,267,237</u>	<u>2,308,047</u>
<u>TOTAL NET ASSETS</u> - End of Year	<u>\$ 3,921,790</u>	<u>\$ 2,267,237</u>

The accompanying notes are an integral part of these financial statements.

LUDINGTON MASS TRANSPORTATION AUTHORITY

LUDINGTON, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</u>		
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 210,906	\$ 199,801
Cash Payments to Suppliers for Goods and Services	(596,512)	(582,356)
Cash Payments to Employees for Services	(618,034)	(571,929)
Net Cash Provided (Used) by Operating Activities	<u>\$ (1,003,640)</u>	<u>\$ (954,484)</u>
Cash Flows from Noncapital Financing Activities:		
Tax Levy Proceeds	\$ 158,690	\$ 203,496
Maintenance Service Receipts	11,701	11,422
Bus Advertising	0	162
State Operating Grants Received	492,378	523,276
Federal Operating Grants Received	144,099	234,168
Net Cash Provided by Noncapital Financing Activities	<u>\$ 806,868</u>	<u>\$ 972,524</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition and Construction of Capital Assets	\$ (1,706,803)	\$ (111,812)
Capital Grants Received	1,502,579	86,903
Proceeds from the Sale of Assets	0	6,002
Net Cash Provided (Used) for Capital and Related Financing Activities	<u>\$ (204,224)</u>	<u>\$ (18,907)</u>
Cash Flows from Investing Activities:		
Interest Received	\$ 22,107	\$ 35,579
Net Increase (Decrease) in Cash and Cash Equivalents	\$ (378,889)	\$ 34,712
<u>CASH AND CASH EQUIVALENTS</u> - Beginning of Year	<u>1,318,540</u>	<u>1,283,828</u>
<u>CASH AND CASH EQUIVALENTS</u> - End of Year	<u>\$ 939,651</u>	<u>\$ 1,318,540</u>

The accompanying notes are an integral part of these financial statements.

LUDINGTON MASS TRANSPORTATION AUTHORITY

LUDINGTON, MICHIGAN

COMPARATIVE STATEMENT OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30,

	<u>2004</u>	<u>2003</u>
<u>RECONCILIATION OF OPERATING INCOME</u>		
<u>TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</u>		
Operating Income (Loss)	<u>\$ (1,208,515)</u>	<u>\$ (1,092,400)</u>
Adjustments to Reconcile Operating Income		
To Net Cash Provided by Operating Activities		
Depreciation	\$ 153,041	\$ 164,127
(Increase) Decrease in Current Assets		
Accounts Receivable	(3,357)	223
Prepaid Expense	(3,460)	48
Inventory	(2,575)	2,722
Increase (Decrease) in Current Liabilities		
Accounts Payable	54,718	(31,618)
Accrued Liabilities	6,508	2,414
Total Adjustments	<u>\$ 204,875</u>	<u>\$ 137,916</u>
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ (1,003,640)</u>	<u>\$ (954,484)</u>

The accompanying notes are an integral part of these financial statements.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ludington Mass Transportation Authority have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Authority's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The Authority has implemented the provisions of Statement No. 34 effective October 1, 2003.

A. Reporting Entity

The Ludington Mass Transportation Authority is organized as a legal entity pursuant to the Mass Transportation System Authorities Act, Public Act 196. The Transit Authority has the capability to provide public transportation to the general public in the area of Ludington and Scottville, Michigan, and the authority to provide this service throughout Mason County. Even though Ludington Mass Transportation Authority now serves much of Mason County, Ludington Mass Transportation Authority does receive city millage for operations, and both City of Ludington and City of Scottville governing bodies appoint Ludington Mass Transportation Authority Board members. Ludington Mass Transportation Authority's financial statements are not included in either the City of Ludington's or the City of Scottville's audit reports. Only Ludington Mass Transportation Authority's operations are included in this report.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

In evaluating how to define the Authority for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the Authority and/or its citizens, or whether the activity is conducted within the geographic boundaries of the Authority and is generally available to its citizens. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the Authority is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the Authority's reporting entity.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the Authority. The government-wide financial statements categorize primary activities as either governmental or business type. The Authority's activities are classified as business-type activities.

In the government-wide statement of net assets, the business-type activity is reported on a full accrual, economic resource basis, which recognizes as long-term assets and receivables as well as long-term debt and obligations. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets. The Authority does not have any outstanding debt obligations.

This government-wide focus is more on the sustainability of the Authority as an entity and the change in the Authority's net assets resulting from the current year's activities.

C. Measurement Focus, Basis of Accounting and Basis of Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Authority utilizes one enterprise fund to account for its business-type activities.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Authority enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Enterprise funds are used to account for those operations that are financed and operated in a manner similar to private business or where the board has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

D. Assets, Liabilities and Equity

1. Deposits and Investments

The Authority's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from date of acquisition.

The Michigan Political Subdivisions Act No. 20, Public Acts of 1943, as amended by Act No. 217, Public Acts of 1982, states the Authority, by resolution, may authorize investment of surplus funds as follows:

- (1) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States in which the principal is fully guaranteed by the United States.
- (2) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, which is a member of the Federal Deposit Insurance Corporation; or a savings and loan association, which is a member of the Federal Savings and Loan Insurance Corporation; or a credit union, which is insured by the National Credit Union Administration

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

- (3) In commercial paper rated at the time of purchase within the 3 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase. Not more than 50% of any fund may be invested in commercial paper at any time.
- (4) In United States government or Federal agency obligation repurchase agreements.
- (5) In bankers' acceptances of United States banks.
- (6) In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

2. Capital Assets and Depreciation

Capital assets are stated at cost. Contributed property is stated at fair market value at the date of receipt. Costs relating to maintenance and repairs are charged to expense, whereas those for renewals and betterments, when significant in amount, are capitalized.

Depreciation of all exhaustible fixed assets used by an Enterprise Fund is charged as an expense against operations. Accumulated depreciation is reported on the balance sheet. Depreciation has been provided over the estimated useful lives using the straight-line method. The estimated useful lives are as follows:

Buildings	20 years
Equipment	2-10 years
Buses	4-10 years

3. Inventory and Prepaid Items

Inventories of motor vehicle lubricants and parts are valued at the lower of cost or market on a first-in, first-out basis. Office supplies are not included in inventories.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

4. Deferred Revenue

The deferred revenue represents taxes received that are not recognized until the following year.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

5. Compensated Absences

The Authority does not allow the carryover of sick and vacation benefits beyond the year earned. For September 30, 2004, however, the Board approved the carryover of vacation benefits for one employee totaling \$2,289.

6. Grants

The Authority receives two distinct types of grants from governmental agencies:

Capital grants are used for capital acquisitions.

Operating grants are used to subsidize day-to-day operations and to meet normal expenses of those operations.

Grant funds used to acquire or construct capital assets are recorded as revenues when the associated capital costs are incurred. Grant funds for operating assistance are recorded as revenues when the associated costs are incurred.

II. DETAILED NOTES ON FUND

A. Property and Equipment

Major classes of property and equipment consist of the following:

	Beginning Balance	Increases	Decreases	Ending Balance
<u>Business-Type Activities</u>				
Capital assets, not being depreciated				
Land	\$ 100,971	\$ 0	\$ 0	\$ 100,971
Construction in Progress	245,759	0	245,759	0
Total capital assets, not being depreciated	\$ 346,730	\$ 0	\$ 245,759	\$ 100,971
Capital assets, being depreciated				
Buildings	\$ 0	\$ 2,258,884	\$ 0	\$ 2,258,884
Buses	1,296,247	61,251	25,173	1,332,325
Bus and Garage Equipment	69,651	17,437	12,122	74,966
Office Equipment	133,297	35,396	41,295	127,398
Total capital assets, being depreciated	\$ 1,499,195	\$ 2,372,968	\$ 78,590	\$ 3,793,573

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

	Beginning Balance	Increases	Decreases	Ending Balance
Less accumulated depreciation for:				
Buildings	\$ 0	\$ 0	\$ 0	\$ 0
Buses	644,115	139,960	25,173	758,902
Bus and Garage Equipment	67,032	2,287	12,122	57,197
Office Equipment	95,633	10,794	41,295	65,132
Total accumulated depreciation	\$ 806,780	\$ 153,041	\$ 78,590	\$ 881,231
Total capital assets, being depreciated, net	\$ 692,415	\$ 2,219,927	\$ 0	\$ 2,912,342
Business-type activities capital assets, net	\$ 1,039,145	\$ 2,219,927	\$ 245,759	\$ 3,013,313

Major classes of property and equipment consist of the following:

	PURCHASED WITH AUTHORITY FUNDS	PURCHASED WITH CAPITAL GRANTS	TOTAL
Land and Buildings	\$ 337,592	\$ 2,022,263	\$ 2,359,855
Buses	10,656	1,321,669	1,332,325
Bus and Garage Equipment	1,247	73,719	74,966
Office Equipment	87,752	39,646	127,398
	\$ 437,247	\$ 3,457,297	\$ 3,894,544
Less Accumulated Depreciation	(49,044)	(832,187)	(881,231)
NET PROPERTY AND EQUIPMENT	\$ 388,203	\$ 2,625,110	\$ 3,013,313

Disposition of assets acquired with Federal and State money require prior approval from the Michigan Department of Transportation.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

B. Receivables

Receivables as of year end for the Authority are as follows:

Receivables	
Interest	\$ 855
Accounts	<u>16,878</u>
Total Receivables	<u>\$ 17,733</u>

The allowance for doubtful accounts is not considered to be material for disclosure.

C. Property Taxes

The Authority levies a voter-approved property tax for the City of Ludington and City of Scottville. The voters granted the authority to levy up to .9254 of one mill through 2005 for the City of Ludington and up to 1.32 through 2008 for the City of Scottville. The taxes are levied and due July 1, and become delinquent after August 14. The taxes are collected by the local units of government within the County and are periodically remitted to the Authority through the County during the collection period.

D. Deposits and Investments

At year end, the carrying amount of the Authority's deposits was \$939,651 and the bank balance was \$958,652 of which \$200,186 was covered by federal depository insurance and \$758,466 was uninsured and uncollateralized.

E. Contingencies

The State and Federal operating assistance contracts are subject to subsequent audit and adjustment by the State of Michigan. The State audits for fiscal years ended September 30, 2000, 2001, 2002 and 2003, either have not commenced or have not been completed.

F. Risk Management

The Authority is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Authority carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of loss can be reasonably estimated.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

For its property and casualty insurance coverage, the Authority is a participant in a public entity risk pool operated by Michigan Transit Pool which benefits participating transportation authorities. The Authority pays an annual premium for this coverage which provides funds to the Pool to secure specific and excess reinsurance, maintain the Loss Fund, and cover administrative and loss prevention service costs. Should the losses of the Pool, in a given coverage period, exceed the Loss Fund and the aggregate excess reinsurance, the Authority would receive a pro rata assessment for their share of the loss. For the years ended September 30, 2004 and 2003, there was a \$17,152 and \$2,814 retrospective billing. Premiums are expensed as incurred while excess reserve distributions are recognized as a contra-expense in the year received in accordance with Michigan Department of Transportation guidelines.

G. Concentration of Credit Risk

For the fiscal year ended September 30, 2004, the Authority was reimbursed by the State of Michigan for 42.236619648% of their eligible operating expenditures. The percentage is based on budgeted eligible operating expenses for all transits in the state. This percentage will be recalculated after total eligible expenses for all transits are determined based on audited figures.

H. Pension

The Authority has established a Simplified Employee Pension Program for all employees who are at least 21 years of age, received at least \$450 in compensation and have completed one year of service. Ludington Mass Transportation Authority contributes 5% of gross wages of each eligible participant each year. Total pension cost for the years ended September 30, 2004 and 2003 were \$28,663 and \$26,657 respectively. The covered payroll for the year ended September 30, 2004 was approximately \$577,985 and total payroll was \$624,542.

In addition, the Authority has a section 457 plan which allows employees to defer a portion of their wages into individual retirement annuities which are owned by each employee.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2004

I. Operating Lease

The Authority leases a copier under a noncancelable operating lease. The total cost for the lease was \$1,834 for the year ended September 30, 2004. The future minimum lease payments for this lease are as follows:

Year Ending September 30, 2005	\$	1,620
2006		1,620
2007		<u>270</u>
	\$	<u><u>3,510</u></u>

In addition to the copier lease, they were leasing the facility for \$6,000 per month through August 2004. The Authority moved its operations to the new facility in September 2004. For the year ended September 30, 2004, total lease expense on the facility was \$66,000.

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

COMPARATIVE SCHEDULE OF OPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

OPERATING REVENUES

Demand Response (Farebox)
Contracted Bus Service

<u>2004</u>		<u>2003</u>	
\$	119,452	\$	126,293
	<u>94,811</u>		<u>73,285</u>
\$	<u>214,263</u>	\$	<u>199,578</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

SCHEDULE OF OPERATING EXPENSES
FOR THE YEAR ENDED SEPTEMBER 30, 2004
WITH COMPARATIVE TOTALS FOR THE YEAR ENDED SEPTEMBER 30, 2003

	2004			
	OPERATIONS	MAINTENANCE	GENERAL ADMINISTRATION	TOTAL SYSTEM
Labor				
Operator's Salaries and Wages	\$ 317,435	\$ 0	\$ 0	\$ 317,435
Other Salaries and Wages	65,237	60,356	181,514	307,107
Fringe Benefits				
FICA and Unemployment	33,175	4,777	14,528	52,480
Group Insurance	80,545	21,881	19,929	122,355
Workers' Compensation	14,433	1,632	448	16,513
Other Fringe Benefits	20,269	4,070	6,215	30,554
Services				
Professional	4,312	0	35,042	39,354
Maintenance	1,548	5,008	0	6,556
Other Services	79,984	364	123	80,471
Materials and Supplies Consumed				
Fuel and Lubricants	44,428	281	1,854	46,563
Tires and Tubes	2,857	0	0	2,857
Other Materials and Supplies	10,576	28,946	5,633	45,155
Utilities	0	0	22,747	22,747
Casualty and Liability Costs	52,580	0	36,187	88,767
Miscellaneous Expenses				
Advertising/Promotion Media	0	0	4,398	4,398
Dues and Subscriptions	0	0	1,503	1,503
Travel and Meetings	78	165	7,669	7,912
Leases and Rentals	68,318	0	1,834	70,152
Property Taxes	6,858	0	0	6,858
Depreciation	139,960	2,287	10,794	153,041
	<u>\$ 942,593</u>	<u>\$ 129,767</u>	<u>\$ 350,418</u>	<u>\$ 1,422,778</u>

2003

TOTAL

SYSTEM

\$ 301,968
272,375

48,477
111,112
18,513
28,539

40,665
8,056
48,479

44,636
7,618
26,279
21,028
62,245

4,256
1,925
5,592
76,088
0

164,127

\$ 1,291,978

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

COMPARATIVE SCHEDULE OF NONOPERATING REVENUES
FOR THE YEARS ENDED SEPTEMBER 30,

	2004	2003
<u>LOCAL SOURCES</u>		
Tax Levy	\$ 177,322	\$ 172,010
<u>STATE SOURCES</u>		
State of Michigan Operating Grants		
Local Bus Operating Assistance (Act 51)		
Prior Year Adjustment - 1999	\$ (7,015)	\$ 0
2003	0	391,786
2004	416,701	0
Reverse Commute/Project Zero	212,726	114,034
Grant Administrative Fees	0	258
Total State Sources	\$ 622,412	\$ 506,078
<u>FEDERAL SOURCES</u>		
U.S. Department of Transportation		
Operating Grant - Section 5311		
Contract No. 02-0061/Z10	\$ 107,523	\$ 97,947
Rural Transit Assistance Program	3,819	2,572
Reverse Commute	62,726	114,033
Grant Administrative Fees	0	257
Total Federal Sources	\$ 174,068	\$ 214,809
<u>OTHER</u>		
Interest Income	\$ 22,018	\$ 34,807
Bus Advertising	0	162
Maintenance Service	11,701	11,422
Gain on Sale of Assets	0	6,002
Total Other Sources	\$ 33,719	\$ 52,393
TOTAL NONOPERATING REVENUES	\$ 1,007,521	\$ 945,290

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

SCHEDULE OF FEDERAL AND STATE GRANTS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

<u>OPERATING ASSISTANCE</u>	DUE FROM (TO) STATE		
	10-1-03	ADJUSTMENTS	EARNED
Operating Assistance			
1999	\$ (9,632)	\$ 7,015	\$ 0
2000	7,301	0	0
2001	(3,185)	0	0
2002	(120,500)	0	0
2003	(24,025)	0	0
2004	0	0	416,701
Reverse Commute 01-0445	40,355	0	0
Reverse Commute 02-0061/Z5	16,070	0	125,452
Project Zero 02-0061/Z9	0	0	150,000
	<u>\$ (93,616)</u>	<u>\$ 7,015</u>	<u>\$ 692,153</u>
Federal Section 5311			
01-0049	\$ 10,616	\$ 0	\$ 0
02-0061	(908)	0	0
2002-0061/Z4	6,627	0	0
2002-0061/Z10	0	0	107,523
RTAP-2002-03	1,525	0	319
RTAP-2003-04	0	0	3,500
	<u>\$ 17,860</u>	<u>\$ 0</u>	<u>\$ 111,342</u>
Total Operating Assistance	<u>\$ (75,756)</u>	<u>\$ 7,015</u>	<u>\$ 803,495</u>
<u>CONTRIBUTED EQUITY</u>			
Capital Grant			
2002-0061/Z3	\$ 0	\$ 0	\$ 618,768
2002-0061/Z7	0	0	645,539
2001-0546	28,015	0	5,596
2002-0061/Z8	0	0	278,688
2002-0061/Z11	0	0	306,956
	<u>\$ 28,015</u>	<u>\$ 0</u>	<u>\$ 1,855,547</u>
Total Contributed Equity	<u>\$ 28,015</u>	<u>\$ 0</u>	<u>\$ 1,855,547</u>
TOTAL FEDERAL AND STATE GRANTS	<u>\$ (47,741)</u>	<u>\$ 7,015</u>	<u>\$ 2,659,042</u>

RECEIVED NET OF (REPAYMENTS)	DUE FROM (TO) STATE 9-30-04
\$ (13,870)	\$ (2,777)
0	7,301
0	(3,185)
(124,243)	3,743
0	(24,025)
413,497	3,204
40,355	0
53,278	88,244
150,000	0
<u>\$ 519,017</u>	<u>\$ 72,505</u>
\$ 10,616	\$ 0
0	(908)
6,268	359
95,232	12,291
1,844	0
3,500	0
<u>\$ 117,460</u>	<u>\$ 11,742</u>
\$ 636,477	\$ 84,247
\$ 618,768	\$ 0
645,539	0
33,611	0
204,661	74,027
0	306,956
<u>\$ 1,502,579</u>	<u>\$ 380,983</u>
<u>\$ 2,139,056</u>	<u>\$ 465,230</u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

SCHEDULE OF EXPENSES BY CONTRACT AND GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	RTAP	REVERSE COMMUTE	OPERATIONS	TOTAL
Labor	\$ 0	\$ 97,801	\$ 526,741	\$ 624,542
Fringe Benefits	0	34,902	187,000	221,902
Services	0	88,652	37,729	126,381
Materials and Supplies	0	18,984	75,591	94,575
Utilities	0	4,143	18,604	22,747
Casualty and Liability Costs	0	14,983	73,784	88,767
Miscellaneous Expenses	3,819	2,216	7,778	13,813
Leases and Rentals	0	12,357	57,795	70,152
Property Taxes	0	1,413	5,445	6,858
Depreciation	0	0	153,041	153,041
TOTAL EXPENSES	\$ 3,819	\$ 275,451	\$ 1,143,508	\$ 1,422,778

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

NET ELIGIBLE COSTS COMPUTATIONS OF GENERAL OPERATIONS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	FEDERAL SECTION 5311 PROJECT NO. 02-0061/Z10	STATE OPERATING ASSISTANCE (ACT 51)
Operating Expenses		
Labor	\$ 526,741	\$ 526,741
Fringe Benefits	187,000	187,000
Services	37,729	37,729
Materials and Supplies	75,591	75,591
Utilities	18,604	18,604
Casualty and Liability Costs	73,784	73,784
Miscellaneous Expenses	7,778	7,778
Leases and Rentals	57,795	57,795
Property Taxes	5,445	5,445
Depreciation	153,041	153,041
Total Expense	\$ 1,143,508	\$ 1,143,508
Less Ineligible Expenses		
Depreciation	\$ 146,552	\$ 146,552
MPTA Dues	79	79
Maintenance on County Vehicles	10,291	10,291
Audit Fees	4,637	0
Total Ineligible Expenses	\$ 161,559	\$ 156,922
Eligible Expenses	\$ 981,949	\$ 986,586
Federal		
Section 5311 Reimbursement (10.95%)	\$ 107,523	
State Statutory Operating Assistance		
42.236619648% of Eligible Operating Expenses		\$ 416,701
But at Least a Minimum of Its:		
1997 Floor of \$344,527		

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

SCHEDULE OF MILEAGE DATA
FOR THE YEAR ENDED SEPTEMBER 30, 2004

(UNAUDITED)

As required by Michigan Department of Transportation, the following schedule details the mileage data for the year ended September 30, 2004. This supplemental data was not audited and, accordingly, we do not express an opinion on it. However, the methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

		TOTAL PUBLIC TRANSPORTATION MILEAGE
<u>DEMAND-RESPONSE</u>		
Quarter Ended:		
December 31, 2003		70,045
March 31, 2004		76,816
June 30, 2004		70,332
September 30, 2004		<u>67,724</u>
TOTAL		<u><u>284,917</u></u>

LUDINGTON MASS TRANSPORTATION AUTHORITY
LUDINGTON, MICHIGAN

SCHEDULE OF VEHICLE HOURS AND PASSENGERS
FOR THE YEAR ENDED SEPTEMBER 30, 2004 AND 2003

(UNAUDITED)

September 30, 2004

	VEHICLE HOURS	REGULAR PASSENGER	SENIOR PASSENGER	HANDI- CAPPED PASSENGER	SENIOR HANDI- CAPPED PASSENGER	TOTAL PASSENGERS
First Quarter	5,920	18,806	4,979	11,573	1,343	36,701
Second Quarter	6,632	22,197	4,913	12,008	1,215	40,333
Third Quarter	5,937	17,513	4,773	11,764	1,273	35,323
Fourth Quarter	5,499	11,697	5,591	10,908	1,282	29,478
	<u>23,988</u>	<u>70,213</u>	<u>20,256</u>	<u>46,253</u>	<u>5,113</u>	<u>141,835</u>

September 30, 2003

	VEHICLE HOURS	REGULAR PASSENGER	SENIOR PASSENGER	HANDI- CAPPED PASSENGER	SENIOR HANDI- CAPPED PASSENGER	TOTAL PASSENGERS
First Quarter	5,631	19,337	5,707	11,305	882	37,231
Second Quarter	5,751	18,639	5,584	10,653	900	35,776
Third Quarter	5,608	15,558	5,295	10,581	1,282	32,716
Fourth Quarter	5,491	13,088	5,497	9,973	1,383	29,941
	<u>22,481</u>	<u>66,622</u>	<u>22,083</u>	<u>42,512</u>	<u>4,447</u>	<u>135,664</u>

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
DALE D. COTTER, C.P.A.

Baird, Cotter and Bishop, P.C.

JOHN H. BISHOP, C.P.A.
ROBERT V. BEATTIE, C.P.A.
DOUGLAS P. McMULLEN, C.P.A.
JOHN F. TAYLOR, C.P.A.
STEVEN C. ARENDS, C.P.A.
SCOTT A. HUNTER, C.P.A.
JONATHAN E. DAMHOF, C.P.A.
MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

November 12, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Ludington Mass Transportation Authority as of and for the year ended September 30, 2004, which collectively comprise the Ludington Mass Transportation Authority's basic financial statements and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Ludington Mass Transportation Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Ludington Mass Transportation Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Ludington Mass Transportation Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of the management, the Transit Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop PC

M. WAYNE BEATTIE, C.P.A.
1902 - 1990
JACK H. BAIRD, C.P.A.
JERRY L. COTTER, C.P.A.
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MICHAEL D. COOL, C.P.A.

CERTIFIED PUBLIC ACCOUNTANTS

November 12, 2004

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Directors
Ludington Mass Transportation Authority
Ludington, Michigan

We have audited the compliance of the Ludington Mass Transportation Authority with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended September 30, 2004. The Ludington Mass Transportation Authority's major federal program is identified in the Summary of Auditors' Results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Ludington Mass Transportation Authority's management. Our responsibility is to express an opinion on the Ludington Mass Transportation Authority's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Ludington Mass Transportation Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Ludington Mass Transportation Authority's compliance with those requirements.

In our opinion, the Ludington Mass Transportation Authority complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended September 30, 2004.

Internal Control Over Compliance

The management of the Ludington Mass Transportation Authority is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Ludington Mass Transportation Authority's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud. That would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial the financial statements of the business-type activities, each major fund, and the aggregate remaining fund information of the Ludington Mass Transportation Authority, as of and for the year ended September 30, 2004, and have issued our report thereon dated November 12, 2004. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Ludington Mass Transportation Authority's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the management, the Transit Board and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BAIRD, COTTER AND BISHOP, P.C.

Baird, Cotter & Bishop PC

LUDINGTON MASS TRANSPORTATION AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED SEPTEMBER 30, 2004

FEDERAL GRANTOR/PASS-THROUGH GRANTOR/PROGRAM TITLE	FEDERAL CFDA NUMBER	STATE GRANTOR NUMBER	FEDERAL EXPENDITURES
<u>U.S. Department of Transportation</u>			
Federal Transit Capital Investment Grants			
Pass-through Program from:			
Michigan Department of Transportation			
Facility Construction	20.500	2002-0061 Z3	\$ 495,014
Facility Construction	20.500	2002-0061 Z7	516,431
Facility Construction	20.500	2002-0061 Z11	245,565
Facility Construction	20.500	2001-0546	<u>4,477</u>
Total Assistance			<u>\$ 1,261,487</u>
Non Urbanized Area Formula Program			
Pass-through Program from:			
Michigan Department of Transportation			
Operating Assistance - Section 5311	20.509	2002-0061 Z10	\$ 107,523
RTAP Training Expense - 2003	20.509	RTAP03	319
RTAP Training Expense - 2004	20.509	RTAP04	3,500
Small Cities and Surface Transportation Program - Capital Assistance	20.509	2002-0061 Z8	<u>222,951</u>
Total Assistance			<u>\$ 334,293</u>
Job Access Reverse Commute			
Pass-through Program from:			
Michigan Department of Transportation			
Operating Assistance - Section 3037	20.516	2002-0061 Z5	<u>\$ 62,726</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u><u>\$ 1,658,506</u></u>

See accompany notes to Schedule of Expenditures of Federal Awards

LUDINGTON MASS TRANSPORTATION AUTHORITY
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2004

NOTE A - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Ludington Mass Transportation Authority and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

LUDINGTON MASS TRANSPORTATION AUTHORITY
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED SEPTEMBER 30, 2004

There were no prior year findings and questioned costs.

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2004

SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of the Ludington Mass Transportation Authority, Ludington, Michigan.
2. A reportable condition was disclosed during the audit of the financial statements. The reportable condition (see below) was considered to be a material weakness.
3. No instances of noncompliance material to the financial statements of the Ludington Mass Transportation Authority which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No reportable conditions were disclosed during the audit of internal control over the major federal award program.
5. The auditors' report on compliance for the major federal award program of the Ludington Mass Transportation Authority expresses an unqualified opinion on the major federal program.
6. There are no audit findings relative to the major federal award program for the Ludington Mass Transportation Authority.
7. The programs tested as major programs were Federal Transit-Capital Investment Grants, CFDA No. 2.500 and Non-Urbanized Area Formula Program, CFDA No. 20.509.
8. The threshold used to distinguish between a Type A and B program was \$300,000.
9. Ludington Mass Transportation Authority did not qualify as a low-risk auditee.

FINDINGS - FINANCIAL STATEMENT AUDIT

The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation. We realize that it is not financially practical for the Board to establish a larger accounting staff in order to implement proper segregation of duties. This reportable condition was considered to be a material weakness.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

LUDINGTON MASS TRANSPORTATION AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2004

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

1. There were no findings relative to the major federal award program audit.

Baird, Cotter and Bishop, P.C.

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MICHAEL D. COOL, C.P.A.

November 12, 2004

Ludington Mass Transportation Authority
Ludington, Michigan 49431

Dear Board Members:

We have completed our audit of the Ludington Mass Transportation Authority financial statements, and are communicating to you our comments and recommendations for the year ended September 30, 2004. The following comments and recommendations are to be reviewed and considered when the Authority is implementing organizational and procedural changes.

I. New Accounting Pronouncement

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the Authority's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the Authority's activities.
- A change in the fund financial statements to focus on the major funds.

The implementation date of the pronouncement is dependent on the size of the governmental unit. The Ludington Mass Transportation Authority was required to implement these changes for the fiscal year ended September 30, 2004.

II. Michigan Transit Pool

For its property and casualty insurance coverage, the Transit is a participant in the public entity risk pool operated by the Michigan Transit Pool. For the year ended September 30, 2004, there was a \$17,152 increase in the premium previously charged by the risk pool. In addition, there exists the potential of approximately \$34,000 additional retrospective billings from the Michigan Transit Pool related to the 2002 and 2003 fiscal years. The Michigan Transit Pool is hopeful some of the potential claims will settle positively, which will reduce the amount due.

III. Single Audit Report

For the year ended September 30, 2004, we were required to perform a financial and compliance audit of federally funded projects. This reporting is necessary when the authority receives over \$500,000 in federal funds in any given year. This report did not disclose any findings or questioned cost.

IV. Reportable Condition on Internal Control

In planning and performing our audit of the financial statements of the Ludington Mass Transportation Authority for the year ended September 30, 2004, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted a certain matter that we consider to be a reportable condition under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The relatively small number of people involved in the accounting functions of the Authority make it difficult to adequately segregate duties. Segregation of accounting duties is a fundamental method of strengthening internal control. However, in deciding what internal control procedures should be implemented, the Board must consider the costs of implementing them and weigh those costs against the benefits to be derived from their implementation.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. We believe that the condition described above, is a material weakness.

We wish to thank the Board for their continued confidence in our firm, and the administration and staff for their cooperation and assistance in helping us complete this engagement. If you have any questions relative to the preceding comments and recommendations, or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P. C.

Baird, Cotter & Bishop PC